



## **Office of the City Auditor**

# **Alarm Permits and False Alarm Service Charges Report No. 0519**

March 27, 2006

Improvements in management oversight and program development are required to ensure that the outcomes meet the program's intent. In addition; Scottsdale City Code, Chapter 3, *Alarm Systems*, should be reviewed and revised to address issues regarding regulation of alarm company conduct and the use of waiver certificates to forgive false alarm activation fees.

### **CITY COUNCIL**

Mayor  
Mary Manross

Council  
Betty Drake  
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March 27, 2006

To the Most Honorable Mary Manross, Mayor  
and Members of the Scottsdale City Council

Transmitted herewith is a report on the Alarm Permits and False Alarm Service Charges, Report No. 0519. We would like to thank all applicable Financial Services and Police Department staff for their cooperation and assistance during this audit.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Lee Barcala".

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP  
City Auditor

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## **EXECUTIVE SUMMARY**

An audit of the Alarm Permits and False Alarm Service Charges was included on the 2005 Audit Plan. The purpose of the work was to evaluate Program performance and review the controls over funds expended and the revenues collected for the Program.

Compliance with established requirements will be improved and Program success will be enhanced with the establishment of goals, objectives, and performance measures that focus on the Program purpose outlined in City Code. Currently, Program success is measured using only one of the objectives set out in City Code. This means that efforts toward cost recovery and regulation of alarm businesses and alarm users are not tracked. Moreover, the measure in use (maintaining a ratio of 80 percent or less) is outdated and there have been no efforts to set a standard that is relevant for current operations or needs of the City.

Program success will be enhanced through the clear delineation of roles and responsibilities for the Program, better efforts towards coordination, and improved communication. The Alarm Coordinator has no responsibility for issues that impact cost recovery, therefore, efforts have focused on outreach to alarm businesses and alarm users. In this role, the Coordinator does not track the percentage of non-licensed businesses to total number of businesses operating within City boundaries or investigate situations in which licenses or permits may have been obtained in one year but not obtained in the following year. Moreover, there was little evidence of coordination between the work areas on strategic improvements that would enhance the cost recovery aspect of the Program and no evidence of inter-departmental communication other than what was absolutely needed. As a result, unlicensed businesses continue to operate without penalty, strategic improvements in Program delivery are not developed, the ratio of false alarm activations remains constant without an indication as to whether this is the best that can be achieved, and there is no data reported on a consistent basis regarding the percentage of cost recovery.

## ACTION PLAN

	Management Response
1	<p>Development of sufficient, measurable, and relevant performance measures will improve the potential for Program success.</p> <p><b>Management Response:</b> <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p><b>Proposed Resolution or Reason for Disagreement:</b></p> <p><b>Financial Services:</b></p> <p>Will develop cost recovery statistics and continue work with our Legal Department to develop enforcement strategies for those alarm business owners doing business in the City without a license and those businesses (90%) that are located out of the City and out of the State. Develop systems to monitor and track efforts to gain compliance and measure effectiveness against previous years. The Police Department will partner in each of these developments and provide ongoing information to assist.</p> <p><b>Police Department:</b></p> <p>Will develop a system to track recidivism and effectiveness of alarm education and outreach programs. Will further develop and continually analyze false alarm reduction goals, provide educational statistics, track efforts and results, and measure against previous years. Financial Services will partner in each of these developments and provide ongoing information to assist.</p> <p><b>Both Departments:</b></p> <p>Will work to develop and implement a survey to evaluate program objectives. Results will be evaluated during each quarterly meeting.</p> <p><b>Responsible Party:</b> FS/PD <b>Completed By:</b> 03/01/2007</p>

	Management Response
2	<p>Clearly delineating the roles and responsibilities between Financial Services and the Police Department will improve Program success, enhancing coordination will result in an effective service delivery, and strengthening interdepartmental communication will create a more collaborative environment.</p> <p><b>Management Response:</b> <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p><b>Proposed Resolution or Reason for Disagreement:</b> Delineate the roles and responsibilities between Financial Services and the Police Department. All roles will be completed in partnership between Financial Services and the Police Department. The following outlines the owners of the processes:</p> <p><b>Financial Services:</b></p> <p>Establish a stronger enforcement process and tool for gaining compliance among those companies doing business without an alarm license and residents with operational alarms without permit.</p> <p>Update all alarm information on our Business Services and Taxes WebPages.</p> <p><b>Police Department:</b></p> <p>Actively assist in the gathering of information for enforcement action as needed on both alarm companies and alarm users who are misusing the system. A system will be developed to communicate the information to Revenue Recovery on a regular basis and track the information and results that are achieved.</p> <p>Summarize trend data and conduct analysis to monitor program effectiveness.</p> <p>Develop strategies and goals to reduce the number of false alarms.</p> <p>Update the information on the Police, Fire, and Public Safety WebPages.</p> <p>Establish regular quarterly meetings.</p> <p>Make any appropriate changes to the Alarm Coordinator's job description to clearly indicate the ongoing relationship and support to Financial Services in the licensing and false alarm process.</p> <p><b>Both Departments:</b></p> <p>Will continue ongoing communication towards ensuring both WebPages have consistent information and that all changes are cross-examined and discussed before WebPages are updated.</p> <p>Evaluate established fees and charges and revise/set accordingly.</p> <p>Research, and if possible, develop and utilize a system or procedure for verifying false alarm data prior to transmitted to Gentax (Tax &amp; License system). This will reduce/eliminate the unmatched alarm file.</p> <p><b>Responsible Party:</b> FS/PD <b>Completed By:</b> 03/01/2007</p>

	Management Response
3	Recent efforts have brought some documents into compliance; priority should be given to bringing remaining documents up-to-date and incorporating the use of City letterhead when preparing transmittal letters for applications and other similar correspondence.
	<p><b>Management Response:</b> <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p><b>Proposed Resolution or Reason for Disagreement:</b> Will update all remaining and existing documents used in the educational process and permit/license registration process to ensure that they meet the appropriate City standard.</p> <p><b>Responsible Party:</b> FS/PD <b>Completed By:</b> 01/01/2007</p>
4	Program operations are in compliance with City Code; however, improvements in tracking billing and collection activity for past due accounts, in addition to the percent of cost recovery achieved, will provide more information to gauge the success of the Program.
	<p><b>Management Response:</b> <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p><b>Proposed Resolution or Reason for Disagreement:</b> Financial Services has always had one full time staff member dedicated to the collection of alarm fees. With the implementation of our new Gentax Tax &amp; License System, Financial Services now has the capability to build new aging reports that will assist in the collection effort. Receivable reports have been and continue to be developed in the new system to summarize collection activity and results.</p> <p><b>Responsible Party:</b> Financial Services <b>Completed By:</b> 10/01/2006</p>
5	City Code should support the use of waiver certificates to forgive false alarm activation fees.
	<p><b>Management Response:</b> <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p><b>Proposed Resolution or Reason for Disagreement:</b> Financial Services, the Police Department, and Legal have been working to revise our current alarm ordinance. The current revised draft of the alarm ordinance supports this requirement and includes the verbiage to allow the use of waiver certificates.</p> <p><b>Responsible Party:</b> FS/PD <b>Completed By:</b> 01/01/2007</p>

## BACKGROUND

Chapter 3 of the Scottsdale Revised Code (SRC) sets out provisions designed to regulate alarm business and alarm user conduct. Current requirements are the result of Ordinance No. 2565 adopted February 28, 1994, with the following purpose statement incorporated into City Code:

*The purpose of this chapter is to regulate alarm business and alarm user conduct to reduce the waste of community public safety resources. This chapter is also for cost recovery purposes.*

**SOURCE:** SRC, Chapter 3, §3.1, Purpose.

To regulate alarm businesses, City Code requires any business that will sell, lease, install, monitor, service, alter, or respond to an alarm system within City boundaries to obtain a specialized license. To monitor alarm user conduct, City Code requires an alarm permit for every location that has a system that will emit an outside audible alarm or transmit a signal to a monitoring service when actuated.

The following definitions, set out in Chapter 3, provide guidance on the type of business governed by the regulations, when a permit is required, and the types of systems covered.

**Alarm Business** – A business, all or a part of which sells, leases, installs, monitors, maintains, services, repairs, alters or responds to any alarm system, in or on any building, structure or facility within the City of Scottsdale.

**Alarm User** – Any person who purchases, leases, contracts for, otherwise obtains or uses an alarm system and includes proprietor alarms that are not leased from, owned by or maintained under a contract by an alarm business.

**Alarm System** – Any mechanical or electrical device, including but not limited to, those used for the detection of smoke, fire, hazardous materials, or unauthorized entry into a building or other facility or for alerting others of the occurrence of fire, or a medical emergency or the commission of an unlawful act within a building or other facility and which is designed to emit an outside audible alarm or transmits a signal or message when actuated. Alarm systems include direct dial telephone devices, audible alarms and proprietor alarms. Alarm systems specifically exclude telephone call diverters and systems designed to report environmental and other occurrences that are not intended to alert, or cause others to alert, public safety personnel.

### Alarm Business License

It is a class one misdemeanor, punishable by six months in county jail or a fine of \$2,500, to engage in an alarm business or to engage in or operate as an alarm agent without obtaining the required license. In addition, the City can assess license fees for prior years (up to four years) should the City become aware that a business has operated without the appropriate license.



The initial fee for an alarm business license is \$155, which covers the application process, the annual license, and a criminal history investigation. All fees are due with the submission of the application. The breakdown of costs is shown in the insert below.

Initial application	\$100
Annual license	\$ 30
Criminal history investigation	\$ 25

**SOURCE:** SRC, Chapter 3, §3.5, *License Required; Term; Fees*.

Applicants must appear in person to be fingerprinted and applications must contain the following information:

- The name of the business, location, mailing address, and telephone number.
- The names and addresses of any alarm agents employed by the business and disclosure if any agents are registered security guards.
- A statement of all prior criminal convictions of the applicant (and any alarm agents), except minor traffic offenses, for the five years immediately prior to application.
- A description of the applicant's experience in the alarm activities for which he or she is applying.
- The name, address, and telephone number of the local manager or managing officer, if a partnership or sole proprietorship, or statutory agent, if a corporation.

The following documents must also be submitted with the application:

- A copy of current, active C-12 contractor's license and/or an L67 low voltage communications license issued by the State Registrar of Contractors. If the business will only monitor alarm systems, there is no requirement to possess either of these licenses.
- A certificate of liability insurance specifically covering alarm systems. Errors and omissions insurance plus combined general comprehensive insurance for a minimum of \$1 million must be provided. As well, coverage must remain in full force and in effect throughout the term of the license and the City is to be notified, by the insurance carrier, if insurance lapses.

After receipt of the application, the Customer Service Director, in Financial Services, has sixty days to either issue or deny the license. Issuance of the alarm license is warranted if 1) the application requirements are met and the background investigation results are favorable, 2) all applicable application and license fees are paid in full, and 3) there are no grounds for denial, such

as, prior criminal convictions or qualifications to work in the United States. Instances of false or misleading application information or the applicant's refusal to disclose required information are also grounds for license denial. If an applicant disagrees with a decision of denial or refusal to issue a license or renew a license, City Code provides a mechanism for appeal.

Once the license is issued, it must be kept at the central station or office of the business and made available, upon request, to City representatives. If the original license is lost; misplaced; or destroyed, a duplicate license may be obtained for a fee of \$10. The license must be renewed annually and an updated investigation is required prior to issuance of a new license. As such, the renewal fee for an alarm business license is \$55 (\$30 for the license and \$25 for the background check).

City Code requires the City Manager to initiate license revocation proceedings if there are reasonable grounds to believe that any of the conditions that would have necessitated denial of the initial application or renewal have come into existence. To date, Financial Services management was not aware of any instance in which a business alarm license had been revoked.

### ***Alarm Systems***

Alarm systems sold, installed, or maintained within City limits by an alarm business must meet the following standards:

- Approved by Underwriters Laboratories (UL) or Factory Mutual (FM) or in "approval pending" status.
- Backed up by a rechargeable power supply.
- Designed to:
  - Alert the user of possible system problems when the user tests or attempts to activate the burglar alarm system.
  - Cease any audible sound within ten minutes from the time the alarm is activated.
  - Use signals (both audible and transmitted) that distinguish between fire and burglary activations.
  - Reduce false alarms.

Ionization type detectors cannot be connected to a monitored alarm system and automated dialing systems cannot be programmed to any telephone number in City government including the Police or Fire Departments.

### ***Requirements for Alarm Businesses***

Provisions in City Code define specific standards and responsibilities licensed alarm businesses must follow. Sections 3.8–3.11 preclude certain actions and set out specific requirements as a condition of doing business.

#### **Installing Systems**

First and foremost, an alarm business cannot place an alarm system that is known to be defective or that contains defective components (i.e., depleted batteries) in service. Second, technicians must be trained by the manufacturer or complete a class in alarm technologies with emphasis on proper installation of devices such as motion detectors and photoelectric beam detectors. After completion of the installation, the system must be inspected and tested with necessary corrective action, if needed, to prevent the occurrence of false alarms. Finally, the alarm business must provide the primary alarm user with complete instruction on the use of the system using specific written instructions or a videotape presentation. Instruction materials must incorporate reasonable guidelines to aid the user in correctly using the system. Also, the alarm business must provide the primary alarm user with a method of prearranged burglar or fire alarm system tests.

#### **Service or Maintenance Agreements**

If an alarm business offers service or maintenance agreements, the business must have a system of notification in place that allows the alarm user to submit a request for service or repair twenty-four hours a day, seven days a week. Moreover, if the alarm business enters into a service or maintenance agreement with an alarm user, the business must provide repair service within twenty-four hours of being notified that the system is in need of repair or service.

#### **Service, Maintenance, Repair, or Monitoring Activities**

Any alarm business that leases, monitors, or services an alarm system with an audible sounding device must clearly place, on the outside of the premises, a sign or decal identifying the name of the alarm business and the telephone number to call if the alarm has been activated. The telephone number shown must be updated to reflect accurate, current information.

Prior to repairing or testing a system, alarm-sounding devices must be disconnected unless the device is specifically being tested. If the alarm business performs any type of service, maintenance, or inspection on an alarm system, the business must provide the alarm user with a written report that describes the reasons for the service, maintenance, or inspection; any problems diagnosed; and actions taken. As well, the businesses must maintain the following records, as applicable, for inspection by the City for two years from the time the service is performed:

- Name and address of the owner or occupant of the premises, the name and telephone number of the user, and a primary and at least two alternative persons responsible for responding to the premises when the alarm is activated.
- Documentation certifying that each alarm user, for which an installation has been completed, has received required instructions.
- A record of all activities and actions taken to correct false alarms and events.

#### ***Public Safety Agency Notification and Response Protocol***

City Code sets out response protocol for alarm businesses that provide monitoring services. First, when the business receives a signal of activation, the business must attempt to verify the need for a response with an authorized alarm user before notifying public safety dispatch. An exception to this requirement is granted in situations involving a fire or panic alarm. Second, the business must inactivate any audible alarm within ten minutes of receiving notice of the activation. Third, the business must arrange to have the user representative respond within twenty minutes of the activation to provide assistance in securing the premises and determining the cause of activation.

When the alarm business notifies public safety dispatch, the following information must be provided:

- Name and address of the alarm user.
- Type of alarm and area protected by the alarm.
- Estimated time of arrival of the alarm user or agent, if requested.

#### **Alarm Users**

City Code requires an alarm permit for each alarm system used, operated, or maintained within City boundaries. As of August 2005, almost 28,500 active alarm permits were listed by Financial Services for businesses and personal residences located in the City. City Code does not provide for a penalty if an alarm permit is not obtained. There is, however, an assessment of a \$50 service charge when public safety resources are dispatched to a location in

response to an alarm with no valid permit. This fee is cumulative, meaning that it is assessed along with false alarm fees and other permit fees that must be paid. Similar to provisions for alarm businesses, prior year permit fees (for a period of four years) may be assessed.

An alarm permit is valid for one year from the date of issuance (or from the date that it should have been obtained in situations where the application for permit was not timely). The City must receive permit applications within three days of the owner placing the system in a state of readiness. The fee for the first year is \$10 and, if there have been no chargeable false alarms in the preceding twelve-month period, \$5 at the time of renewal. Users are required to retain the permit on the premises where the alarm system is located.

When requesting a permit for the first time or renewing a permit, the user must certify that the alarm system has been inspected and, if necessary, maintained by a licensed alarm business or the primary user of the system. Permits are not transferable, either person to person or location to location. Similar to licenses for alarm businesses, a lost, misplaced, or destroyed permit can be replaced for a \$10 fee.

An alarm user must notify the City, in writing, when an alarm business ceases to lease, rent, maintain, service, or monitor the alarm system. If service will be provided by another business, updated information must be filed with the City. To facilitate this process, the City has a form that can be downloaded from the City's Web site and used to submit the required updates.

## **False Alarms**

City Code defines "activation" as:

*Setting off or triggering an alarm system, whether intentionally or unintentionally, rather than placing an alarm system in a state of readiness, or the completion of installation or when arming the alarm.*

If City public safety personnel responds to an alarm and there is no sign of a burglary, fire, or other situation that would necessitate filing a police or fire report, the activation is considered a false alarm. When this condition arises, a response service charge is assessed with the following exceptions:<sup>1</sup>

- Activations occurring within thirty days of installation.
- First two activations occurring within the twelve-month permit period.

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<sup>1</sup> To qualify for one of the exceptions, there must be a valid alarm permit issued for the location of the alarm activation.

The insert below sets out the response service fee that is applicable based on the number of responses within the twelve-month permit period.

Activations	Service Charge
3 <sup>rd</sup>	\$ 50
4 <sup>th</sup> and 5 <sup>th</sup>	\$ 75
6 <sup>th</sup> through 9 <sup>th</sup>	\$100
10 or more	\$200

**SOURCE:** SRC, Chapter 3, §3.14, *Service Charges*.

Service charges are due and payable when statements are mailed to the customer and become delinquent twenty-one days after being mailed. A late fee of \$10 is assessed if not paid on time.

The insert below provides historic information on the number of false alarms, the number of accounts receiving a bill for a response service charge, the amount billed, and the amount remitted for FY 04/05 through August of FY 05/06. Because the payments may fall in a following month, collection percentages may exceed 100 percent.

Month/Year	Number of Registered Alarm Users	False Alarm Activations From Police Department	Billing Statements Mailed	Total Amount Billed	Total Payments Received	Percentage of Collections
Jul-04	28,027	2,063	1,221	\$ 32,582.50	\$ 24,342.16	75%
Aug-04	27,959	1,724	1,119	31,222.75	31,786.00	102%
Sep-04	27,998	1,582	1,003	29,267.00	26,846.75	92%
Oct-04	27,932	1,654	885	26,215.50	20,185.01	77%
Nov-04	27,986	1,495	997	29,425.00	25,617.50	87%
Dec-04	28,095	1,651	1,016	27,325.00	26,958.17	99%
Jan-05	28,174	1,497	903	25,528.00	21,455.32	84%
Feb-05	28,231	1,402	894	25,938.00	21,328.67	82%
Mar-05	28,319	1,671	1,119	26,272.50	29,650.33	113%
Apr-05	28,342	1,657	969	25,057.25	18,610.00	74%
May-05	28,363	1,807	987	28,406.00	23,783.50	84%
Jun-05	28,401	1,893	1,354	36,788.00	23,375.33	64%
<b>Total FY 04/05</b>		<b>20,096</b>	<b>12,467</b>	<b>\$344,027.50</b>	<b>\$293,938.74</b>	<b>85%</b>
Jul-05	28,523	1,893	1,456	\$ 43,800.00	\$ 31,461.50	72%
Aug-05	28,488	1,879	1,275	42,648.72	31,513.00	74%
<b>Total FY 05/06</b>		<b>3,772</b>	<b>2,731</b>	<b>\$ 86,448.72</b>	<b>\$ 62,974.50</b>	<b>73%</b>

**SOURCE:** Financial Services, Alarm Statistics Fiscal Years Report, unaudited.

There will always be differences between the number of false alarm activations reported by the Police Department and those billed by Financial Services. There are two primary reasons for the differences. First, service charges are not generated for every false alarm dispatched. Users are allowed a thirty day "no charge" grace period for new installations and two "free" alarm responses every twelve-month permit period when there is a valid permit for the location. Second, not every false alarm call can be traced to a physical address. For example, the Police Department may be dispatched as the result of an audible alarm but the alarm may be turned off by the time the Officer arrives on scene. In this situation, it may not be possible for the Officer to determine the false alarm location.

### ***Service Charge Review***

An alarm user with a valid permit may submit a written request for a review of a service charge assessment. The request must be made before the delinquent date, provide an explanation of why the alarm user believes the fee should be waived or reduced, and include information on steps that have been taken to ensure that false activations will not occur in the future. Reasonable justifications include:

- Issuance of a Police or Fire Department written report.
- "Act of god" – an unusual, extraordinary, sudden, and unexpected manifestation of the forces of nature.
- Evidence of a "common event" that triggered a series of activations. If there is sufficient evidence to support a conclusion that a series of activations were triggered by the same event, then all activations within a forty-eight hour period are considered a single activation. For this to be considered, the event must be one where there is no reasonable expectation of the correction before the next event and there must be an indication that there were no additional activations within the next thirty days that can be traced back to the "common event."

The Customer Service Director or designee is charged with the responsibility to consider the facts of the request and make a determination on whether to reduce or waive the charge.

### ***Hearings***

City Code also provides for an independent hearing should the alarm user not be satisfied with the outcome of the review. To take advantage of this process, the request for hearing must be filed within ten days of receipt of the decision from the reviewer.

The request for a hearing is to be accompanied by a payment equal to the amount of service charges due or \$20, whichever is greater. If the hearing

officer finds for the alarm user, the fees will be returned. If the hearing officer holds for the City, the fees are to be applied against outstanding charges. There have been no requests for alarm hearings since 1995.

### ***Efforts to Reduce False Alarms***

The City has been proactive in efforts to reduce false alarms. Each month the City offers an alarm class to help educate users on tools and techniques that can be employed to reduce the potential for false alarms. As well, the City has tips on reducing false alarms and provides a "how-to-guide" brochure to inform users on the requirements for selecting an alarm system.

### **Administration**

Statutorily, the General Manager of Financial Services is responsible for the administration of alarm related services. At present, alarm activities are administered through a partnership between Financial Services and the Police Department.

### ***Financial Services***

Two areas in Financial Services are involved in alarm licensing and permit issuance; Tax and License and Revenue Recovery. The Tax and License Section in the Customer Service Division is responsible for processing applications, issuing licenses and permits to businesses and individuals, locating non-compliant alarm businesses, maintaining alarm account activity and file documentation, issuing renewal notification, assessing fees, issuing monthly billing statements, and recording all revenues generated from alarm licenses and false activation fees. The Revenue Recovery Section of the Customer Service Division handles the initial effort to collect delinquent accounts by preparing delinquency notices, attempting telephone contacts, placing liens on property, and pursuing legal action. Actual collection services are contracted out to a third party.

Of the more than approximately 140 employees in Financial Services, 15 staff assigned to either Tax and License or Revenue Recovery are involved in some aspect of issuing applications, monitoring accounts, or collecting fees related to alarm licenses, alarm permits, or alarm service charges.



### ***Police Department***

The Police Department has one full-time staff person assigned specifically to issue false alarms. The Police Alarm Coordinator administers the City's False Alarm Reduction Program. The Alarm Coordinator:

- Represents the City in its effort to reduce false alarm occurrences.
- Serves as a liaison between the City and the user community.
- Educates alarm system users and alarm industry professionals regarding the City's alarm code.

As the City's alarm representative, job roles specified under the City Job Description No. 0454 include:

- Develop and monitor prevention strategies and tools.
- Prepare written documentation that includes ordinance revisions, training guides, and revocation letters.
- Update information into the Computer Aided Dispatch system (CAD).
- Write new code language for staff review.
- Answer public inquiries by telephone or by personal site visits.
- Serve as a member of the Security and Electronic Service Systems Association (SESSA).

In addition, the Alarm Coordinator is responsible for the False Alarm Awareness School, a program offered by the Police Department. This program was established as an effort to increase community awareness and encourage alarm users, currently experiencing false alarm problems, to learn how to reduce false activations. As part of the class, participants learn how to operate alarm systems, maintenance requirements, false activation prevention techniques, and how false alarm occurrences impact the City as a whole.

If an alarm user participates in the False Alarm Awareness School, the City will provide a certificate that can be used to obtain a waiver for a service charge on one false alarm response. The waiver is valid for one-year and can only be used for current charges. The certificate must be surrendered within thirty days of the statement date to take advantage of the waiver.

## **Program Enhancements Through Automation**

City management estimates that approximately 29,000 alarm permits and licenses are issued each year. For many years two separate systems were used for the licensing and permit activities. These systems were:

- Sales Tax and Receivable Systems (STARS) created in-house during the 1990s as a component of a larger system for a project initially intended to handle sales tax and regulatory licensing. After some effort, the project for the larger system was abandoned and STARS was retained as the computer system to manage the transaction privilege (sales) tax returns.
- BANNER, the revenue and regulatory licensing and alarm activation billing system, purchased from SCT Corporation in 1996 with the intent to automate revenue and regulatory licensing as well as alarm activation billing. Mid-year in 2000, SCT discontinued the product line due to lack of interest by new customers. With the existing investment in the SCT product, the City chose to proceed to enhance the product using consultants and in-house staff to complete the preliminary phases of the automation.

Both systems lacked the long-term stability needed for a critical business application. The operating platform (Oracle 7) was no longer vendor supported nor was there customer support outside of City staff in the Information Systems Department to address system improvements or modifications. As a result, the City elected to move to a new system.

In October 2005, Financial Services completed the installation of a new integrated Sales Tax, Regulatory Licensing, and Alarm Billing system called GenTax. The GenTax product was purchased from Fast Enterprises, LLC, of Boise, Idaho, and was chosen based on its ability to support the implementation of multiple taxes on an Oracle database. Funding for this project is currently budgeted at \$1.2 million according to the FY 05/06 Budget Book and was made available through CIP 402-M0504. GenTax will provide the City with enhanced management and accountability over high revenue sources such as sales tax as well as effective facilitation and management of the alarm licensing and permit functions.

## **SCOPE AND METHODOLOGY**

The objectives of this audit were to determine:

- Whether management has measurable and relevant performance measures, whether outcome data is captured, and whether data supports management goals and objectives.
- If the roles and responsibilities between Financial Services and the Police Department are distinctly defined and if there is sufficient interdepartmental coordination to achieve Program compliance in an effective manner.
- If the City has taken appropriate steps to ensure proper indemnification related to the False Alarm Reduction Program.
- Compliance relating to the requirements for obtaining and maintaining an alarm business license or user permit and the process currently in place for collecting fees and service charges.

Audit scope covered Program activity from January 2004 through August 2005. The Police Department provided some statistical data dating back to 1999 but this information was only considered during the evaluation of Program performance. We reviewed alarm call data, billing and payment reports, financial data, unmatched dispatches, and unlicensed alarm business reports. We selected a random sample of forty active accounts (license and permit) and traced activity from the application through to the billing statement. Imaged permit and license support file documentation was reviewed to determine if requirements, issuance dates, and fee amounts applied by Financial Services were in compliance with City Code. Individual account activity and billing detail, including activations; service charges; late fees; and payments were reviewed and the amount billed verified.

We studied Arizona Revised Statutes; City Code; City Intranet and Internet Web sites; the FY 03/04, FY 04/05, and FY 05/06 City Budget Books; City Council reports; Administrative Regulations (ARs); and internal procedures, including the procedures used by Financial Services for GenTax. Additionally, staff in both Financial Services and the Police Department were interviewed to gain an understanding of their respective roles and the processes utilized for alarm permit, license, and fee activities.

During our fieldwork, we identified issues regarding the City's inability to enforce the Code. Customer Service maintains a list of more than 120 alarm businesses that continue to operate, within City boundaries, without the required alarm business license. Although the inability to enforce the business license requirement is pertinent to program compliance, the issue is not included as a reportable condition in this report. Management was aware of

the condition before our audit and has been diligently working towards a resolution that can be proposed to the City Council.

The audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq.* Survey work took place in September after which the audit was suspended at the auditee's request. The fieldwork start date was revised and audit testing completed in December 2005 with Monica Thomas performing the work.

**OBJECTIVE 1: DETERMINE WHETHER MANAGEMENT HAS MEASURABLE AND RELEVANT PERFORMANCE MEASURES, WHETHER OUTCOME DATA IS CAPTURED, AND WHETHER DATA SUPPORTS MANAGEMENT GOALS AND OBJECTIVES.**

Development of sufficient, measurable, and relevant performance measures will improve the potential for Program success.

**Criteria:** Effective management control should be in place to ensure that appropriate goals and objectives are met; resources are safeguarded and used efficiently, economically, and effectively; and reliable data is captured, maintained, and fairly disclosed.

Performance measurement is an essential component of management control to ensure that budget decisions focus on results and outcomes. Performance measures assess:

- How well program goals and objectives are being met.
- How well programs and services are delivered to customers.
- Whether the program is achieving its intended outcomes.

Programmatically, performance measures help to:

- Develop appropriate program initiatives to improve program performance and service delivery by reengineering work processes.
- Improve budgeting and planning by assessing customer demands for critical programs and services.
- Improve management practices by examining how well resources are being utilized to achieve strategic, performance, and/or process benchmarks.
- Improve program administration and service delivery by identifying deficiencies and implementing enhancement strategies.
- Provide objective feedback on program and service performance.
- Revise programs and services to meet customer demands and ensure quality.
- Strengthen accountability.

Program performance should be evaluated at least annually or more often if there are significant changes in the mission or goals of the Program. Outcomes should be monitored and used in managerial decision-making processes.

**Condition:** Management has established several Program goals and performance measures. According to documentation prepared for the adoption of the citywide budget for FY 05/06, the following measures are used to track the False Alarm Reduction Program:

- Number of licensed alarm users (output).
- Number of false alarm activations processed (output).
- Reducing the ratio of false alarm responses to less than 80 percent based on the number of false alarms to the number of alarm users (outcome).
- Initiating 2,100 or more citizen contacts per year (outcome).

Using the outcome data obtained during this audit, two statistical tests were performed to determine if the Program was meeting the outcome measures for reducing false alarm activations. First, the ratio of false alarms to the number of alarm permits was recomputed for each month in calendar year 2004 and the period of January through August 2005. We found that the ratio fluctuated between 43 percent and 61 percent (an 18 percent span) per month in calendar year 2004 and from 49 percent to 75 percent per month (a span of 26 percent) for the eight months in 2005. On an annual basis, the ratio was 70 percent for FY 03/04 and 67 percent for FY 04/05.

Second, the ratio of false alarms to total activations was calculated for 2003 through August 2005. The ratio ranged from a low of 63 percent in 2003 to a high of 66 percent for 2005, which was consistent with the ratio obtained by dividing the number of alarm users.

Based on both of these ratios, the False Alarm Reduction Program met the stated outcome goal of reducing the ratio of false alarms to number of alarm users to less than 80 percent.

The established performance measures, however, are not useful as an assessment tool. Under the current measures, only one of three objectives outlined in the Program purpose statement is tracked (i.e., reduction of the waste of community public safety resources) leaving efforts towards the other two objectives (i.e., regulation and cost recovery) unaddressed.

More importantly, the trend data captured in response to the performance measures provides no insight into needed enhancements or areas that are working well. For example, reporting the number of alarm permits issued is not a measure of user compliance nor does it measure the effectiveness of Program delivery. Similarly, tracking the number of citizen contacts provides no insight into the effectiveness of Program outreach or the satisfaction of customers served by the Program.

Finally, the data captured and reported is not useful in evaluating efforts towards meeting goals. For FY 04/05 and FY 05/06, Program goals were to:

- Continue to reduce incidents of false dispatches through education of alarm users, companies, and dispatch personnel (public and private).
- Increase awareness for 9-1-1 dispatches and responding police officers to the provisions of the City alarm code and its impact on their interaction with the alarm user and alarm industry.
- Continue to identify unlicensed members of the alarm industry and users and bring them into compliance with the new City alarm code.

None of these goals has a performance measure associated with progress made toward the desired outcome. First, the standard used for measuring the ratio of false alarms has not been revised even though the Program met the established objective in FY 03/04. If the goal of the Program is to continue to reduce the incidents of the false alarms dispatched, the measure should focus on the desired percentage of reduction. Tracking performance against past success creates the potential for areas of concern to be overlooked by failing to track trend data that is more relevant of the current environment. For example, comparing the same period of activity for calendar year 2005 against calendar year 2004 shows an increase of 3 percent in the ratio of false alarms. Effective performance measures that captured changes in ratios year-to-year or month-to-month would have flagged this situation for evaluation. This would have allowed management to determine if more aggressive outreach is needed before the ratio starts to climb or if the anomaly is the result of differences in data collection techniques.

For the other two Program goals, performance measures are non-existent. This means that management does not have the data readily available to make decisions on changes in Program delivery. For example, the outcome and output data relative to the Program objective to increase awareness of the City Code provisions will not be tracked nor will the efforts to identify unlicensed alarm businesses and bring them into compliance. The Program carried over FY 04/05 goals to FY 05/06 without modification or available trend data for support; this may have been the result of factors beyond the control of the City or an indication of ineffective planning.

**Cause:** Department staff has focused on service delivery to alarm users and businesses that comply with the requirements. Other activities such as developing performance measures for cost recovery and other Program activities have not been given the same importance.

**Effect:** Management will not have the information necessary to evaluate Program success or identify opportunities for improvement.

**OBJECTIVE 2: DETERMINE IF THE ROLES AND RESPONSIBILITIES BETWEEN FINANCIAL SERVICES AND THE POLICE DEPARTMENT ARE DISTINCTLY DEFINED AND IF THERE IS SUFFICIENT INTERDEPARTMENTAL COORDINATION TO ACHIEVE PROGRAM COMPLIANCE IN AN EFFECTIVE MANNER.**

Clearly delineating the roles and responsibilities between Financial Services and the Police Department will improve Program success, enhancing coordination will result in an effective service delivery, and strengthening interdepartmental communication will create a more collaborative environment.

**Criteria:** City operations should be implemented in the most efficient manner. Because achievement of the Program purpose (as outlined in City Code) is dependent on the efforts of staff in both Financial Services and the Police Department, it is imperative to have a successful, collective approach to issues.

Good communication facilitates program success by ensuring that individuals know what is expected of them. Open lines of communication provide the right person with correct, reliable, and relevant data when needed and eliminates the need for duplication of effort. Finally, the appropriate level of communication ensures that all parties understand program goals and objectives and their role in meeting the desired outcome. Through this process, group and team cohesiveness is encouraged, morale remains positive, and stress can be reduced.

**Condition:** Currently, City Code places Program responsibility with the Financial Services General Manager; there is no mention of the Police Department, the Alarm Coordinator, or their roles in the alarm program. According to the City job description, the fundamental reason for the position is to administer the False Alarm Reduction Program and serve as the City's alarm representative. Responsibilities include developing and monitoring prevention strategies, preparing ordinance revisions, updating the dispatch system, and regulating false alarm conduct through training, outreach, and industry associations. Based on Program goals; job descriptions; and observance of actual activities, it is apparent that the Alarm Coordinator position is an integral component of alarm operations. Because Program success hinges on outreach efforts and Customer Service activities are dependent on the accuracy of the alarm dispatch information transmitted to them, the roles and responsibilities of Alarm Coordinator must be clearly defined to ensure that job expectations are known and Program outcomes are met.



The absence of assigned responsibilities also has an adverse affect on communication and task coordination between the departments. Through our interviews with staff and reviews of inter-office e-mails, we confirmed that interdepartmental communications are generally performed randomly or on an as needed basis (e.g., when Customer Service receives an alarm user complaint about an activation). However, meetings that are repetitive are used to focus on a specific Program issue such as the on-going reciprocal licensing provision currently under development. Staff provided us with documentation to support their collective efforts to initiate the new provision, yet no documentation was provided to support the existence of other regularly scheduled meetings to address service delivery issues such as marketing/outreach strategies, cost recovery goals, Program performance, or information sharing.

Maintenance of the City's public Web site is one of two examples we found to substantiate the importance of consistent and planned interdepartmental communication and role delineation. The alarm program Web site, used as a Program information source for citizens, presented stale information. Both Customer Service and the Police Department have been proactive in using the Internet as a means of communicating with the alarm business and user community. Applications for both licenses and permits are available for download, along with links to pamphlets and tips on how to reduce false alarm activations. However, statistics regarding the number of false alarms dates back to 2003. It appears that each work area has taken responsibility for the Web page sections applicable to their area, but there was no collective effort to maintain the general information for the Program or to assign the responsibility to Program staff.

The second example involves the retention of daily false alarm activations by Customer Service. All activations that could not be matched to an active user account are summarized on a daily-unmatched report and the original dispatch record is imaged. There was no indication of a coordinated effort by the Alarm Coordinator to actively investigate, monitor, or track the unmatched files for billing purposes. The identification and pursuit of non-compliant alarm businesses and users is not only a False Alarm Reduction Program objective but would be an achievement in the Code requirement to regulate alarm business conduct.

**Cause:** The Alarm Coordinator position was developed for outreach to alarm businesses and alarm users. Job duties do not include coordination with Customer Service as part of the efforts to reduce or recover costs associated with the Program. As well, the job description does not address the issue of pursuing unlicensed businesses or alarm users that do not obtain the required permit.

The lack of management intervention.

**Effect:** Limited effectiveness in achieving the purpose set out in Code.

**OBJECTIVE 3: DETERMINE IF THE CITY HAS TAKEN THE APPROPRIATE STEPS TO ENSURE PROPER INDEMNIFICATION RELATED TO THE FALSE ALARM REDUCTION PROGRAM.**

Recent efforts have brought some documents into compliance; priority should be given to bringing remaining documents up-to-date and incorporating the use of City letterhead when preparing transmittal letters for applications and other similar correspondence.

**Criteria:** AR 120 and AR 180 require all communications intended for public or employee-wide distribution to be reviewed by Communications and Public Affairs (CAPA) prior to distribution.

While not documented as part of either AR 120 or AR 180, the City Attorney's Office should also review documentation when issues such as compliance with City Code provisions are addressed to ensure consistent presentation of information.

**Condition:** Staff from both the Office of the City Attorney and CAPA confirmed that the current application for an Alarm Business License and the False Alarm Brochure were reviewed in 2005. CAPA staff commented favorably on the use of the trademark designation when incorporating the City Seal on documents pertaining to the application for an Alarm Business License.

Other documents, however, are still in need of review. For example, the application for an alarm permit, the alarm user permit update form, and the alarm system ordinance booklet do not incorporate the trademark designation as part of the City Seal.

Finally, CAPA staff recommends the use of City letterhead when preparing documents such as transmittal letters to clearly identify that the documentation originated from the City. Currently, the transmittal letter for both the Alarm Business License application and the Alarm Permit application are presented on blank stationery that only uses the City Seal as the means of communicating that the document is an official City communication tool.

**Cause:** Staff has been proactive when implementing new documents and updating existing forms but historical practice has prevented a consistent review of all documentation to ensure compliance.

**Effect:** Efforts to protect the City's investment in the development of the seal and symbol will be negatively impacted through the continued use of the City seal without the trademark designation.

**OBJECTIVE 4: DETERMINE COMPLIANCE WITH CHAPTER 3 OF THE SCOTTSDALE REVISED CODE RELATING TO THE REQUIREMENTS FOR OBTAINING AND MAINTAINING AN ALARM BUSINESS LICENSE OR USER PERMIT AND THE PROCESS CURRENTLY IN PLACE FOR COLLECTING FEES AND SERVICE CHARGES.**

Program operations are in compliance with City Code; however, improvements in tracking billing and collection activity for past due accounts, in addition to the percent of cost recovery achieved, will provide more information to gauge the success of the Program.

City Code should support the use of waiver certificates to forgive false alarm activation fees.

**Criteria:** City Code, Chapter 3, *Alarm Systems*.

**Condition:** Program operations are in compliance with City Code requirements. Summarizing data to depict billing and collection alarm activity for any given period would facilitate future reviews and setting out the aging of past due accounts would improve analysis of collection efforts. As well, code provisions should be established to justify the use of a waiver certificate system to forgive false alarm activation fees.

The Customer Service Division of Financial Services has developed the appropriate application forms for businesses and alarm users. These documents are available through the City's Web site, the mail, and can be obtained in person. The Division has also established the appeals process outlined in City Code and License Inspectors carry out duties to verify that businesses obtain the required license. The Police Department has developed a process to provide information about false alarm activations to Customer Service for billing and the implementation of new billing software (GenTax) has enhanced account accessibility and management.

We conducted a test of compliance with license requirements and found that the required supplemental information was obtained and background investigations were completed prior to issuing an Alarm Business License. In addition, we verified that the appropriate fees were collected for each license or permit in our sample.

We tested the collection of appropriate fees for permits and false alarm activations and found the appropriate fee was charged when an active account could be identified. Staff in the Customer Service Division prepares monthly reports of billing and collection activity. But, weekly or monthly aging summaries for the figures reported were not available. The Division does have the ability to generate adhoc reports but because alarm account

balances are minuscule, collection efforts are focused on accounts with higher balances. Efforts are not Program specific. More importantly, however, the result of activity is not tracked against the cost of providing the service (i.e., the cost of responding to a false alarm activation) to determine the percentage of cost recovery. As a result, the billing and collection efforts for active accounts could not be validated.

Additionally, we noted the Program incorporation of waiver certificates to forgive false alarm activation fees. The Alarm Coordinator issues the certificates to alarm users who participate in the False Alarm Awareness class. Although this is historical practice, City Code does not support this.

**Cause:** Collection efforts focused on the larger revenue sources such as sales tax.

**Effect:** The cost recovery aspect of the Program may be impacted by the efforts to match false alarms with active accounts as well as the efforts made to pursue the collection of past due accounts.

## APPENDIX A – MANAGEMENT RESPONSE

### MEMORANDUM

DATE: March 27, 2006  
TO: Cheryl Barcala, City Auditor  
FROM: Craig Clifford, Chief Financial Officer  
Alan Rodbell, Chief of Police  
RE: Alarm Permits and False Alarm Service Charges Audit No. 0519

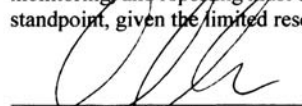
The attached action plan is in response to Audit No. 0519 relating to Alarm Permits and False Alarm Service Charges.


Financial Services recently implemented a new tax and licensing system (10/2005) replacing a much older legacy system. The new "Gentax" system is capable of managing alarm licensing, permits, and collection functions while allowing users to write statistical and aging reports, track and measure progress, highlight noncompliance, and compare data between years.

Statistics indicate that the false alarm reduction program is having some effect. The total number of false alarm activations has fallen over the past five years, while the number of licensed alarm users has continued to rise. In 1999 we had 23,972 false alarm activations and 22,183 license holders, while in 2004 (the last full year statistically available) we had 18,042 activations and 28,095 licenses. We will continue to devote our efforts to reducing these numbers even further.

Also, as noted in the audit, staff in the Police Department and Customer Services have been meeting for the last few years together and with other cities throughout the Valley to discuss and initiate steps to implement a reciprocal alarm license. The cities of Phoenix, Chandler, Mesa, and Tucson have been working together in just such a fashion since 2003 and have been able to bring many of their non-compliant alarm businesses into compliance. Staff from the Police Department and Financial Services are currently working to complete the research on reciprocity through a review of each participating city's outcomes after a year and a half in the program and our Legal Department continues their work to revise the Alarm Systems ordinance accordingly.

As part of our evaluation of responses, we remained mindful that program development, monitoring, and reporting must be viewed from a cost/benefit perspective from the organizational standpoint, given the limited resources and staff available.

  
Alan Rodbell, Chief of Police

  
Craig Clifford, General Manager  
Financial Services

C: Jan Dolan, City Manager  
Neal Shearer, Assistant City Manager  
Marc Eisen, Homeland Security Director  
Debora Johnson, Customer Service Director